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THE *Wyatt* COMPANY
ACTUARIES AND EMPLOYEE BENEFIT CONSULTANTS

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DISTRICT 7-2183

May 12, 1954

CHICAGO
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NEW YORK
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[Redacted]
Central Intelligence Agency
Room 200 - North Building
2430 "E" Street, N. W.,
Washington, D. C.

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[Redacted]
We have reviewed the proposal of the Mutual Benefit Health and Accident Association of Omaha relative to the provision of life insurance and accidental death benefits to employees of your organization. This proposal was set out briefly in Mr. Randall's letter dated April 19, 1954 directed to your attention, and in certain exhibits. The information supplied is very sketchy and, consequently, we are able to make only a few rather general comments. These comments on the letter, exhibits and related items are as follows:

(1) The proposed term life coverage would include the customary conversion privilege and also waiver of premiums during permanent disability providing such disablement occurs prior to age 60. 1/ This appears to be somewhat more favorable than W.A.E.P.A. because we can find no evidence of a disability premium waiver provision in the W.A.E.P.A. plan. However, a somewhat more favorable disability provision (including payment of monthly installments up to the face amount of insurance in the event of total and permanent disability) might be requested if such seemed desirable. This arrangement used to be widely found in group life policies and we understand that certain insurance companies will include this type of provision currently. We assume from Exhibit 1 that the "Omaha" conversion privilege is not limited to those under age 60.

(2) We have trouble understanding just how the schedule of insurance set out in Mr. Randall's letter is to be used.

Mention is made of an "optional schedule of insurance" but the wording immediately preceding the schedule would seem to deny the existence of any options. Still a little later on in his letter, it would appear that an employee has a very wide choice in the amounts of insurance which he may select, e.g., an employee earning \$4,200 annually apparently could select the amount of insurance equal to his annual salary taken to the nearest \$1,000 (\$4,000),

1/ We interpret the second paragraph of Mr. Randall's letter to refer to the customary total and permanent disability waiver of premium benefit although he uses the expression "lifetime permanent waiver prior to age 60" which, of course, may have reference to some quite different arrangement (i.e. the word "total" is not used by Mr. Randall nor is there any direct reference to "disability").

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or he could elect to go in Class 1 and have \$3,000 of insurance or he could go in Class 5 and have \$15,000 of insurance. Very frankly, we are somewhat puzzled by the description of the benefits to be provided and are wondering if perhaps the intent is merely to permit any employee to elect an amount of insurance in even thousands not less than \$3,000 or over \$15,000, except that if an employee earns under \$3,200 annually he may not select more than \$6,000. If the intent is to have several quite different schedules of elective benefits operating simultaneously, we are inclined to believe that such a system would be fraught with anti-selection dangers from the insurance company's standpoint, and in any event might well be confusing to all concerned. We would suggest that the expression of benefits of the proposed plan be clarified.

(3) The exclusion described at the bottom of the first page is not clear. We interpret it to mean that the exclusion applies only to accidental deaths occurring while employees are in or on vehicles or devices for aerial navigation other than aircraft. This is because the exclusion refers to the type of vehicle involved rather than to the status of the employee, i.e., it does not seem to be related to whether or not the insured is a member of the crew of the aircraft (this is based on the interpretation that all individuals in or on an aircraft are passengers - the usual exclusion refers to either the fare-paying status of the passenger or the employment of the excluded individual as a crew member of the vehicle).

(4) The complete story on the coverage offered is not available since no sample contract was submitted. We are also unable to comment on the comparative cost aspects of the proposal since no retention agreement is at hand for review (premium rates, subject to change each year, considered without a retention agreement or projected dividend distributions are not particularly informative as to ultimate costs).

(5) From Exhibits 2 and 3 it would appear that the Omaha rates are more favorable than those of W.A.E.P.A. However, as pointed out in (4) above, the stated premium rate basis is not nearly as important in comparing cost results as is the retention rate or dividend treatment and premium rate stability.

(6) If a retention of 15% of gross premiums is involved, as we have been advised, then on the basis of a \$200,000 annual premium some \$30,000 would be retained by the insurance company each year. We have no information as to how this \$30,000 would be distributed among the various expenses incurred by the insurance company and contingency reserves. The establishment of a reasonable contingency fund for this type of coverage is, of course to be expected, but it is suggested that further information be elicited as to the anticipated expenses according to the several categories - administrative expense, agent's commission, state premium tax, federal tax, etc. It is our opinion that in the usual group life insurance arrangement involving \$200,000 of annual premium income, the amount retained by an insurance company would (except possibly for the first year) normally be well under \$30,000. However, the plan at hand is quite different from the customary group life insurance program and special contingency reserves may be called for, but information on such reserves should be furnished to the policyholder.

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(7) In this connection it might be possible to secure a still lower retention rate from another insurance company. There may be important reasons why such additional bids should not be invited, but in the absence of such reasons we would suggest that three or four insurance companies be invited to submit bids for the business.

(8) The Omaha gross premium rates appear to be lower than the standard group rates generally permitted by New York statute. We gather that this Company is not licensed to do business in New York. (We sometimes feel that such licensing and supervision by the New York State Insurance Department may be a favorable point, but not of itself sufficiently important to influence the selection of an underwriter.)

In summary, we do not have very much in the way of suggestions to offer regarding the proposed underwriting arrangement primarily because no policy contract or retention agreement was submitted to us (and also because we had considerable difficulty in interpreting the material that was submitted). While we are informed that the Omaha is willing to abide by a 15% retention rate, there does not seem to be anything in writing at this time to confirm it. Nor have any other proposals from insurance companies (except W.A.E.P.A.) been studied to see whether any more favorable coverage or retention rate might be available currently.

While the correspondence appears to have come from the Mutual Health and Accident Association, it is our understanding that the "Omaha Plan" would actually be underwritten by the United Benefit Life Insurance Company. Such information as we have available regarding the United Benefit Life Insurance Company is favorable, but since we have never had occasion to work with this particular Company, we are unable to comment on its administrative facilities.

We understand that you would like us to discuss the pros and cons of self-insuring this coverage. While we feel that self-insurance might be feasible, a very considerable amount of research would have to be done in order to satisfy ourselves (and you) that it is the preferable course to take in this instance. The unusual nature of the coverage, the potentiality of catastrophic loss, the facilities for claim administration, the legal aspects in establishing a self-insured system (questions relating to possible conflict with state insurance laws, development of a "contract" or vehicle through which the benefits would be offered, etc.), the actuarial considerations (fixing a proper rate of contribution, handling of refunds to participants, establishment of contingency funds and reserves) all require careful study. We will, of course, be glad to carry out the parts of such a study as fall within the actuarial and insurance fields. However, we believe that heretofore the merits and shortcomings of self-insurance have been broadly discussed in our meetings, and we hesitate to embark on an exhaustive survey along these lines unless very serious consideration is being given to the self-insured route.

Very truly yours,

William W. Sellers
William W. Sellers, Actuary

James A. Hamilton
James A. Hamilton, Actuary